

German labour market starts to leave the crisis behind

The best May performance of the labour market since 2012 provides more evidence of the economy's rebound



German unemployment dropped by 84,000 in May, lowering the number of unemployed to 2.687 million.

The seasonally-adjusted unemployment rate remained unchanged at 6.0%. This is not only the lowest unemployment number since April last year but also the best performance of the German labour market in May since 2012.

But before getting too carried away by this encouraging strong labour market performance, don't forget that since the start of the crisis headline unemployment data has to be taken not only with a pinch but a big spoon of salt. The real impact of the crisis on the labour market can be found in short-time work schemes.

According to the German labour agency, there are still some 2.6 million in short-time work, even though the number of new applications has dropped significantly to 96000 in May. Interestingly and according to media reports, short-term work schemes are no longer being used to exclusively tackle the fallout from the crisis but also as a result of increasing supply chain

disruption, particularly in the German automotive industry.

Looking ahead, for the German labour market, the worst seems to be over. Employment expectations in the manufacturing industry have started to improve for almost a year. And since March, recruitment plans in the services sector finally also started to pick up. However, despite this brightening outlook, the German labour market is still facing two substantial risks: rising bankruptcies and an end of government support schemes. While there is very little the government can do to avoid bankruptcies from increasing, the latest decision to once again extend some elements and conditions of short-term work schemes to at least September illustrates that the government will do its best to prevent unemployment accelerating in an election year.

Let's not forget that the labour market is a lagging, not a leading indicator. In this regards, the May improvement is welcome news. With a further reopening of the economy over the summer, the labour market should continue to improve. Even if the high number of short-time workers is a good reminder of potential risks going forward, today's numbers suggest that the labour market is gradually leaving the crisis behind.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.